



Rewarding Learning

**ADVANCED
General Certificate of Education
2011**

Business Studies

Assessment Unit A2 1

assessing

Making Business Decisions

[AT211]

MONDAY 16 MAY, AFTERNOON

MARK SCHEME

1 With reference Software Solutionz:

(a) Calculate the missing values from the decision tree **Figure 1**. [2]

(b) Explain the best possible option for the business. [2]

Knowledge	Application
[2] Two correct values	[2] Correct option fully explained
[1] One correct value	[1] Identifying correct option
[0] No correct values	[0] No option

(a) **Values:** £33 000 and £145 000.

(b) Software Solutionz should choose Option 3, i.e. new premises. This gives expected returns of £145 000 which is £49 000 higher than Option 1. The new unit will be modern and more efficient to run.

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2 Analyse the current position of Software Solutionz using any two elements of SWOT analysis.

	AO1 Knowledge and Understanding [2]	AO2 Application [2]	AO3 Analysis [3]
Level 2	[2] Candidate demonstrates good understanding of how Software Solutionz could use SWOT analysis to assess its current position	[2] Candidate makes good application of the terms	[2–3] Good analysis of how Software Solutionz could use SWOT analysis to assess its current position
Level 1	[1] Candidate demonstrates some understanding of how Software Solutionz could use SWOT analysis to assess its current position	[1] Candidate attempts to make some application of the terms	[1] Limited analysis of how Software Solutionz could use SWOT analysis to assess its current position
Level 0	[0] Candidate demonstrates no understanding of how Software Solutionz could use SWOT analysis to assess its current position	[0] No attempt at application	[0] No analysis

Relevant answers may include:

- SWOT can assess the internal strengths of the business such as its excellent reputation, and quality award
- a weakness for Software Solutionz could be lack of finance
- SWOT can assess the external influences on the business. Opportunities include entering a new market
- threats include losing control if the business changed to a limited company.

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3 Evaluate the usefulness of a mission statement to an organisation such as Software Solutionz.

	AO1 Knowledge and Understanding [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] Candidate demonstrates excellent knowledge and understanding of the usefulness of a mission statement	[3] Excellent application	[3] Excellent analysis of the usefulness of a mission statement	[5–6] Candidate gives a sound evaluation/forms a mature final judgement of having a mission statement
Level 2	[2] Candidate demonstrates good knowledge and understanding of the usefulness of a mission statement	[2] Good application	[2] Good analysis of the usefulness of a mission statement	[3–4] Candidate gives a good evaluation of the arguments presented and forms a final judgement
Level 1	[1] Candidate demonstrates some knowledge and understanding of the usefulness of a mission statement	[1] For limited application to Software Solutionz	[1] Limited analysis of the usefulness of a mission statement	[1–2] For limited evaluation of the arguments presented
Level 0	[0] Candidate demonstrates no understanding	[0] Candidate demonstrates no attempt at application	[0] No analysis	[0] No evaluation

Software Solutionz Mission Statement is:

“We pride ourselves on being an innovative organisation and strive to fulfil our customers’ highest expectations.”

Advantages of having a mission statement:

- a mission statement sets out what an organisation is trying to achieve, i.e. the reason why it exists. This is clear from Software Solutionz’s mission statement
- it gives everyone a sense of common purpose so that all actions are geared towards the same end
- it makes decisions easier by enabling options to be compared against the mission statement. This is possible if we examine Software Solutionz’s mission statement
- it serves as a basis for Software Solutionz’s organisational objectives and targets
- it can be effective in setting/changing organisational culture.

Drawbacks of having a mission statement:

- mission statements can be too vague. This is the case with Software Solutionz as nothing is quantifiable
- mission statements may be ignored by senior management causing workers to become cynical
- mission statements are often seen as a marketing ploy rather than meaningful statements of intent.

Final judgement

The use of a mission statement will create a focus for everyone within Software Solutionz and attract possible new customers.

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4 Evaluate the benefits and limitations to an organisation such as Software Solutionz of using ratio analysis to assess its performance.

	AO1 Knowledge and Understanding [3]	AO2 Application [3]	AO3 Analysis [3]	AO4 Evaluation [6]
Level 3	[3] Candidate gives an excellent understanding of the benefits and limitations of Software Solutionz using ratio analysis to assess its performance	[3] Candidate makes excellent application of the terms	[3] Excellent analysis of the benefits and limitations of Software Solutionz using ratio analysis to assess its performance	[5–6] Candidate gives a sound evaluation of the arguments presented and forms a mature final judgement
Level 2	[2] Candidate gives a good understanding of the benefits and limitations of Software Solutionz using ratio analysis to assess its performance	[2] Candidate makes good application of the terms	[2] Good analysis of the benefits and limitations of Software Solutionz using ratio analysis to assess its performance	[3–4] Candidate gives a good evaluation of the arguments presented and forms a final judgement
Level 1	[1] Candidate demonstrates some understanding of the benefits and limitations of Software Solutionz using ratio analysis to assess its performance	[1] Candidate attempts to make some application of the terms	[1] Limited analysis of the benefits and limitations of Software Solutionz using ratio analysis to assess its performance	[1–2] Candidate provides limited evaluation of the arguments presented
Level 0	[0] Candidate shows no understanding of the benefits and limitations of Software Solutionz using ratio analysis to assess its performance	[0] No attempt at application	[0] No analysis	[0] Candidate gives no evaluation of the arguments presented

There are benefits and limitations to an organisation of using ratio analysis:

Benefits:

- year on year comparisons can be made. Software Solutionz can assess its performance based on previous year's figures and identify possible trends
- comparisons with other organisations can be made. Software Solutionz can assess its performance against similar firms within its market sector and use this information as a benchmark for future improvement
- investors in Software Solutionz can be provided with easy to understand information about their current investment and this might encourage further investment in the future
- areas of concern within Software Solutionz can be identified and action taken to correct them.

Limitations:

- ratios are only as accurate as the underlying data used to prepare them
- ratio analysis will only provide Software Solutionz with a "snap shot" of its financial position at a given point in time. This can become quickly out of date as economic conditions change very quickly
- ratios say nothing about Software Solutionz's social responsibility and environmental stance.

Final judgement

It is likely that the benefits gained by Software Solutionz from the calculation of ratios and their interpretation will outweigh their limitations.

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5 Evaluate how a business plan could assist Jim with his proposal for the future of the business.

	AO1 Knowledge and Understanding [4]	AO2 Application [4]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3–4] Candidate demonstrates mature knowledge and understanding of the term business plan	[4] Candidate makes excellent application of the term business plan	[4–5] Excellent analysis of the benefits and limitations to Jim of a business plan	[5–6] Candidate gives a sound evaluation of the arguments presented and forms a mature final judgement. QWC is excellent
Level 2	[2] Candidate gives a good understanding of the term business plan	[2–3] Candidate makes good application of the term business plan	[2–3] Good analysis of the benefits and limitations of a business plan	[3–4] Candidate gives a good evaluation of the arguments presented and forms a final judgement. QWC is good
Level 1	[1] Candidate demonstrates some understanding of the term business plan	[1] Candidate attempts to make some application of the term business plan	[1] Limited analysis of the benefits and limitations to Jim of using a business plan	[1–2] Candidate provides limited evaluation of the arguments presented. QWC is limited
Level 0	[0] Candidate shows no understanding of the term business plan	[0] No attempt at application of the term business plan	[0] No analysis of benefits or limitations of business plan	[0] Candidate gives no evaluation of the arguments presented. QWC is poor

Benefits of a business plan:

- a business plan will assist Jim and Terry to set realistic objectives for the business and the strategies required to achieve them
- it will provide a vision for the future especially as there are opportunities for expansion in a new market
- it will outline the resources that the business requires to successfully achieve its objectives, e.g. raising finance to relocate
- a cash flow forecast can be drawn up as part of the plan and this will force management to focus on costs and sources of revenue
- a business plan can be used to support an application for raising additional finance from a bank
- objectives set out in the plan can be monitored and reviewed thus assisting forward planning and target setting
- fail to plan, plan to fail – taking the time to draw up a plan will reduce the chance of failure especially if the business is changing its structure.

Limitations of a business plan:

- preparing a business plan can bring additional pressure to Jim and Terry as it takes time and expertise
- they may have to pay someone to draw up the plan and this will add to costs
- much of the information contained in such a plan is estimated, e.g. cash flow forecast so it is no guarantee of success.

Final judgement

It is possible to conclude that the business plan would be a very useful document to draw up particularly if the structure of the business changes. It will assist with the strategy and planning required for the future success of the business.

6 Evaluate decision trees as a tool for decision making in a business such as Software Solutionz.

	AO1 Knowledge and Understanding [4]	AO2 Application [5]	AO3 Analysis [5]	AO4 Evaluation [6]
Level 3	[3–4] Candidate demonstrates mature knowledge and understanding of the term decision tree	[4–5] Candidate makes excellent application of the term decision tree	[4–5] Excellent analysis of the usefulness of decision trees.	[5–6] Candidate gives a sound evaluation of the arguments presented and forms a mature final judgement. QWC is excellent
Level 2	[2] Candidate gives a good understanding of the term decision tree	[2–3] Candidate makes good application of the term decision tree	[2–3] Good analysis of the benefits and limitations of decision trees	[3–4] Candidate gives a good evaluation of the arguments presented and forms a final judgement. QWC is good
Level 1	[1] Candidate demonstrates some understanding of the term decision tree	[1] Candidate attempts to make some application of the term decision tree	[1] Limited analysis of the usefulness of decision trees	[1–2] Candidate provides limited evaluation of the arguments presented. QWC is limited
Level 0	[0] Candidate shows no understanding of the term decision tree	[0] No attempt at application of the term decision tree	[0] No analysis of benefits or limitations of decision trees	[0] Candidate gives no evaluation of the arguments presented. QWC is poor

Benefits:

- it is a useful tool to use when choosing between several options such as choosing whether to build an extension, invest in new equipment or relocate
- decision trees can be used effectively in a situation where a logical sequence of events can be followed, such as the process involved in relocating, e.g. planning, securing finance, etc.
- the use of a decision tree will enable Jim and Terry to think logically about each of the proposed options so a good decision can be made
- the use of a decision tree analysis can highlight the possible cost and expected returns of each project being considered
- decision trees are visual so this makes it easy for everyone to see clearly all the possible options
- using a decision tree will encourage Terry and Jim to consider all the costs and risks associated with each option.

Limitations:

- the information used to produce a decision tree is based on probability and there is no guarantee that the expected outcomes may not materialise
- a decision tree focuses only on the quantitative aspects of decisions made by Jim and Terry thus ignoring important qualitative issues
- the business environment is rapidly changing so the information produced by a decision tree will become dated very quickly
- decision trees are less useful in relation to completely new decisions or problems. It might be risky therefore for Jim and Terry to rely solely on decision tree analysis as the basis for the final decision.

Final judgement

It is possible to conclude that a decision tree is a useful tool to assist Jim and Terry make a decision. It encourages them to research carefully all possible options and to assess the risk of choosing a particular one. However, it is unwise to use it in isolation so qualitative factors should also be seriously considered by Jim and Terry before they make a final decision.

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Total

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